

B85956

2.N17

Copy 3



**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

S. C. STATE LIBRARY

FBI 2 000

STATE DOCUMENTS

DEPARTMENT OF NATURAL RESOURCES

AGENCY

JANUARY 1, 1992 - SEPTEMBER 30, 1994

DATE

**DEPARTMENT OF NATURAL RESOURCES
PROCUREMENT AUDIT REPORT**

JANUARY 1, 1992 - SEPTEMBER 30, 1994

TABLE OF CONTENTS

	<u>PAGE</u>
Transmittal Letter.....	1
Introduction.....	3
Background.....	4
Scope.....	5
Summary of Audit Findings.....	6
Results of Examination.....	7
Certification Recommendations.....	11
Department Response.....	12
Follow-up.....	13

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES



DAVID M. BEASLEY, CHAIRMAN
GOVERNOR

RICHARD A. ECKSTROM
STATE TREASURER

EARLE E. MORRIS, JR.
COMPTROLLER GENERAL

JOHN DRUMMOND
CHAIRMAN, SENATE FINANCE COMMITTEE

HENRY E. BROWN, JR.
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

HELEN T. ZEIGLER
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

WILLIAM E. GUNN
ASSISTANT DIRECTOR

January 26, 1995

Mr. William E. Gunn
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Eddie:

We have examined the procurement policies and procedures of the Department of Natural Resources for the period January 1, 1992 through September 30, 1994. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Department of Natural Resources is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide

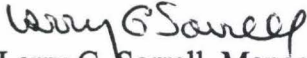
management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Department of Natural Resources in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the Department of Natural Resources. Our on-site review was conducted September 26, 1994 through October 28, 1994, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On September 15, 1992, the Budget and Control Board granted the Department the following procurement certifications:

<u>Category</u>	<u>Limit</u>
Goods and Services	\$25,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	\$25,000 per commitment
Consultants	\$25,000 per commitment
Construction	\$25,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. Additionally, the Department requested the following increased certification limits.

<u>Category</u>	<u>Limit</u>
Goods and Services	\$50,000 per commitment
Information Technology in accordance with the approved Information Technology Plan	\$50,000 per commitment
Consultants	\$50,000 per commitment
Construction	\$25,000 per commitment

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Natural Resources and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period January 1, 1992 through September 30, 1994 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period January 1, 1992 through September 30, 1994
- (2) Procurement transactions for the period July 1, 1992 through June 30, 1994 as follows:
 - a) Two hundred and twenty payments, each exceeding \$500
 - b) A block sample of four hundred fifty-one vendor files
- (3) Nine professional service contracts and fourteen construction contracts for permanent improvement projects for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information Technology Plans for Fiscal Years 1992, 1993 and 1994
- (6) Internal procurement procedures manual
- (7) Surplus Property Procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the Department of Natural Resources, hereinafter referred to as the Department, produced findings and recommendations as follows:

	<u>PAGE</u>
A. <u>Freight Not Considered in Award</u>	7
The Charleston Office was not considering freight when determining solicitation requirements and awards.	
B. <u>Accounts Payable</u>	7
Six instances were noted where Accounts Payable did not follow Department policy that resulted in \$1,102.78 in overpayments.	
C. <u>Exemptions Misapplied</u>	8
Two exemptions to the Procurement Code were misapplied.	
D. <u>Inappropriate Procurement Method</u>	9
We believe the Department should have used the emergency procurement method for emergency repairs.	
E. <u>Resident Vendor Preference</u>	10
The Department applied the resident vendor preference against an in-state vendor because the vendor failed to submit a Resident Vendor Affidavit.	

RESULTS OF EXAMINATION

A. Freight Not Considered In Award Determination

Our testing of the random samples revealed that in the Charleston Procurement Office freight charges were not being considered when determining solicitation requirements and awards. After we inquired about this problem, we learned this problem was found to be exclusively at the Charleston Office. Because the Procurement Code did not address this issue, the Materials Management Officer issued a memorandum stating that freight charges must be considered when determining solicitation requirements and awards.

We recommend the Charleston Office consider freight costs when determining solicitation requirements and awards.

B. Accounts Payable

Six instances of payments made by Accounts Payable were noted which did not comply to Department policy. Five of these resulted in overpayments, and the other resulted in two items being bought which were not authorized by the purchase order. They were as follows:

<u>Purchase Order Number</u>	<u>Description</u>	<u>Purchase Order Amount</u>	<u>Overpayment</u>
1. 94 001797	Remove & Repair helicopter engine	\$12,914.18	\$679.00
2. 94 001459	Low speed saw	3,375.75	191.63
3. 94 030502	1.5 HP Chiller w/ heat exchanger	2,509.50	127.76
4. 94 031833	Lab flurometer	9,899.34	93.39
5. 93 031969	Electronic charting system	1,940.86	11.00
6. 94 000848	Laser printer	7,763.45	_____
		Total	<u>\$1,102.78</u>

On item 1 the vendor billed \$13,593.18 but also allowed for two credits which left a net bill of \$11,584.46. Because the net bill was less than the purchase order amount, Accounts Payable paid the invoice. However, the vendor actually increased the invoice \$679.00 over the purchase order amount. According to Department policy, a change order should have been issued before this amount was paid. This would have given the Procurement Office a chance to determine if the additional amount was owed.

On item 2 the vendor overbilled and improperly included freight. The amount recorded on the purchase order was a quoted amount from the vendor. Department policy required a change order to be issued prior to an increased amount being paid. This would have given the Procurement Department a chance to discover the invoice was improper.

For items 3, 4 and 5, the purchase orders were prepared FOB Destination meaning the prices included all freight costs. However, the invoices were prepared adding freight as an additional charge and Accounts Payable paid them.

On item 6 a multi purpose sheet feeder was ordered with the laser printer. However, the sheet feeder was sent back and a legal paper tray and a ledger paper tray were received instead. Under Department policy a change order was required to authorize this transaction. No change order was ever issued yet Accounts Payable paid the invoice.

We recommend Accounts Payable follow Department policy when paying invoices.

C. Exemptions Misapplied

We noted two separate Procurement Code exemptions that were misapplied due to misunderstandings. In the first instance, the Department purchased data circuits for the telephone system at the Charleston Office on purchase order 93 030024 for \$7,500. The

requisition referenced an exemption for telecommunications service. However, the exemption applies only if approved by the Office of Information Resource Management of the Budget and Control Board. We were not provided with any such approval.

For the second item, an instructor was hired to provide flight ground school and flight training on purchase order 93 002079 for \$600. The purchase order referenced an exemption for tuition paid to institutions of higher learning. These training services did not fall into that category. Since the services were procured prior to the Code changes, a minimum of two verbal solicitations were required.

We recommend the Department not misapply these exemptions.

D. Inappropriate Procurement Method

The Department procured repairs for storm damage on purchase order 93 002540 for \$2,400.00 and was supported by three written quotes. However, the repairs covered on purchase order 93 002540 were only part of the repairs on the written quotes which ranged from \$4,942.02 to \$12,570.00. According to Department personnel, the repairs were a result of the "Storm of the Century" which included strong winds, rain, snow and ice that occurred in March of 1993. The storm caused damage to several areas of the same facility. The repairs needed to be completed as quickly as possible.

Section 11-35-1570 allows for emergency procurements "when there exists an immediate threat to public health, welfare, critical economy and efficiency, or safety." The Department appeared to be in an emergency situation when the procurement was done and at the time the total awards would have required a sealed bid or an emergency declaration. Neither was done because each award was considered instead of the total procurement.

We recommend the Department consider the total potential award in determining the appropriate procurement method. We believe an emergency declaration would have been appropriate under the circumstances above.

E. Resident Vendor Preference

The Department solicited for fiberglass reinforced wall materials in bid WLD93-153107-2/4/93. The low bidder did not complete the Resident Vendor Preference Affidavit but the next low bidder did. As a result, the Department applied the preference against the low vendor and the vendor did not receive the award.

In 1983, the Court of Common Pleas, in Honeywell, Inc. versus Materials Management Office, Case Number 83-CP-40-0168, ruled, "Resident status occurs by reason of a bidder's falling within the statutory definition and is not lost by failure to request the in-state preference". Therefore, the resident vendor preference should not be used against an in-state vendor even if the preference is not requested. This ruling was affirmed in the Court of Common Pleas Decision, Civil Action #91-40-CP-4853, Barber-Coleman Company versus Johnson Controls, Inc., in 1992.

The Department should not apply the resident vendor preference against any in state vendor.

CERTIFICATION RECOMMENDATIONS

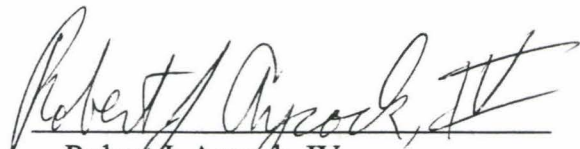
As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the Department of Natural Resources in compliance with the South Carolina Consolidated Procurement Code.

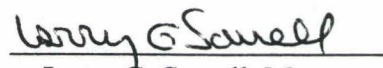
We will perform a follow-up review by January 31, 1995 to ensure that the Department has completed this corrective action.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the Department of Natural Resources be recertified to make direct agency procurements for three (3) years up to the limits as follows:

<u>PROCUREMENT AREAS</u>	<u>RECOMMENDED CERTIFICATION LIMITS</u>
1. Goods and Services	*\$50,000 per commitment
2. Information Technology in accordance with the approved Information Technology Plan	*\$50,000 per commitment
3. Consultants	*\$50,000 per commitment
4. Construction	*\$25,000 per commitment

*This means the total potential purchase commitment to the State whether single year or multi-term contracts are used.


Robert J. Aycock, IV
Audit Manager


Larry G. Sorrell, Manager
Audit and Certification

THE UNIVERSITY OF CHICAGO

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY